

# Glaxo Wellcome-SmithKline Beecham merger creates world's largest drug company

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On January 18, UK pharmaceutical companies Glaxo Wellcome and SmithKline Beecham announced that they would be merging their operations. Glaxo SmithKline will be the largest drug company in the world as well as the largest company outright in the UK. The merger deal is to be completed in the summer of this year and no opposition is anticipated from the monopolies and mergers commission, the government or other regulatory obstacles.

Jean-Pierre Garnier, the company's new chief executive designate, said, "The new company is global, proud of its roots in the UK and of its corporate domicile in the UK. But a world class competitor cannot operate all of its functions from a market that represents only 6 percent of its existence." He said that the new company would be taking decisions of strategy away from its current UK base.

Whilst avoiding specific details, company spokesmen admitted there would be redundancies. Trade unions in Britain have stated that up to 15,000 jobs could go worldwide, out of a total workforce of 105,000, and it is feared that between 2,000 and 5,000 jobs could go within the UK.

Roger Lyons, the general secretary of the Manufacturing, Science and Finance union (MSF), said that many jobs were threatened in Britain. His concern was not so much the livelihoods of the workers involved, but the adverse impact on Britain's traditional place as a leader in the pharmaceutical world market. Lyons complained, "Staff have been kept completely in the dark and we need to now know how a company whose chief executive is going to live in the United States is going to have the same commitment to a company that has traditionally been the jewel in the British pharmaceutical crown. We're unhappy because there have been no discussions about the implications for the future of the science base in the UK."

Most of the jobs are expected to go in the administration departments of the two companies as well as at some of its manufacturing sites. The research and development bases in the UK are seen as an important asset to the company and are not expected to be closed. MSF has requested a meeting with company chief executives and British Trade and

Industry Minister Lord Sainsbury on February 26 to discuss the job losses.

The new company—worth some £130 billion—will be quoted on both the London and New York stock exchanges. The stock markets had responded favourably to news of talks between the two companies. When the deal was announced, however, the stock value of the companies fell from £113.8 billion when the market opened to £107.3 billion at close. Market analysts had expected the company to make higher cost-cutting measures than the £1.1 billion announced. Projected growth targets were also lower than had been anticipated.

Glaxo Wellcome and SmithKline Beecham have been involved in merger discussions over the past two years. In 1998 a proposed merger was shelved after it was reported that there were major disagreements over how the new company would be led. Those in disagreement, Glaxo chief executive Sir Richard Sykes and his SmithKline counterpart Jan Leschly, have now settled their differences. Leschly is due to retire shortly and will receive an estimated £90 million pay-off from his shares and share options in the company. Sykes is also to retire and take up an academic post.

More fundamental considerations than personal gain have produced the final proposed deal, however. In the last period there have been a number of mergers in the pharmaceutical industry globally. Recently, Zeneca, the other main player in the UK drug market, merged with the Swedish firm Astra.

Two other major European drugs companies, Hoechst and Rhone Poulenc, have also agreed to merge their pharmaceuticals business to form a new company Aventis. Following that merger, Hoechst chief executive Juergen Dormann and Rhone Chairman Jean-Rene Fourtou said in a joint statement, "We want to form a new company with common European roots and a world-wide presence in order to take part in the significant growth opportunities in the life sciences." Dormann later said, "Going it alone would put us at risk of losing momentum and falling behind in a rapidly changing and consolidating industry. We see this merger as

a window of opportunity that we want to take advantage of." Aventis is set to save \$1.2 billion a year when the merger is completed and many of these savings are to come from the lower taxes the group will have to pay by basing its headquarters in France.

Pharmacia, a Swedish-based pharmaceutical company that had previously merged with US firm Upjohn, has now bought out Monsanto. As well as producing genetically modified seeds, Monsanto is also a major drug manufacturer. The merger of Pharmacia and Monsanto was worth some £32 billion (\$52 billion) and created the seventh largest drugs company in the world.

In the US, discussions are quite advanced between Pfizer and Warner Lambert to merge. Last week, Warner Lambert announced that it was to abandon its planned merger with AHP and would instead seek to reach an agreement to link up with Pfizer. Were such a merger to take place between the latter two companies it would create the world's biggest single drug company.

This proved to be the catalyst for Glaxo and SmithKline to accelerate their merger talks and the announcement to join the two companies was made shortly afterwards.

These mergers have been necessitated by the massive costs associated with the development and marketing of new drugs. Health services throughout the world are demanding that drug companies reduce their prices and supply them with the cheapest pharmaceuticals. It is now a common scenario for the National Health Service in Britain to refuse to prescribe a drug because it is too expensive. Rising research and development costs have meant that drug companies have been unable to "go it alone" and have had to utilise the expertise and resources of other drug companies in order to survive in a cut-throat market.

Both Glaxo Wellcome and SmithKline Beecham are themselves the products of mergers. Within the past 10 years there has been a major consolidation and rationalisation of the pharmaceuticals industry in Britain. In 1989, SmithKline, a US firm, merged with Beecham, one of the oldest UK drugs companies. Glaxo Wellcome was created in 1995 in a £9 billion deal, at that time the largest merger ever in the UK.

Since then there have been numerous job losses and cutbacks as the companies have sought to retain and increase their share of the world drug market. On October 5, 1999 Glaxo Wellcome announced plans to shed 3,400 jobs globally, including 1,700 in the UK over a four-year period. As a result, UK jobs are to go at its manufacturing plant at Dartford, Kent, which is to lose 1,500 jobs, while a further 200 will be cut at its site in Speke, Liverpool.

Those redundancies by the company saw its global workforce reduced from 21,400 to 18,000 and were carried

out following a year-long restructuring review. The job losses will save the firm £370 million annually by 2003, even though the initial costs of the restructuring programme were £520 million.

Glaxo SmithKline will be the world's biggest producer of prescription drugs and will have a market share of more than 7 percent. Currently, Merck is the world's largest prescription drug manufacturer, with a market share of 4.2 percent. Astra Zeneca and Glaxo Wellcome are the next largest. The expected merger of Pfizer and Warner-Lambert would mean that it would have a world market share of drug sales of 6.3 percent, just behind that of Glaxo SmithKline, placing them in fierce competition with the new company.

Glaxo SmithKline will have global drug sales of £17 billion, and the combination of their crucial research and development arms is expected to save them £250 million. The company will have the largest annual research and development budget in the world at £2.4 billion. In addition to drug products, Glaxo SmithKline owns a number of other companies that produce household names such as the soft drinks Lucozade and Ribena.

The deal is certain to fuel further mergers, job losses and rationalisations throughout the drug industry. The newly merged company is to concentrate on increasing its market share in the critical and lucrative US market. It will employ a global sales force of 40,000 around the world, including 7,200 representatives stationed in the US. As an example of what these resources could achieve, Sir Richard Dykes said that if necessary Glaxo SmithKline could visit all 250,000 of America's doctors within a week.

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